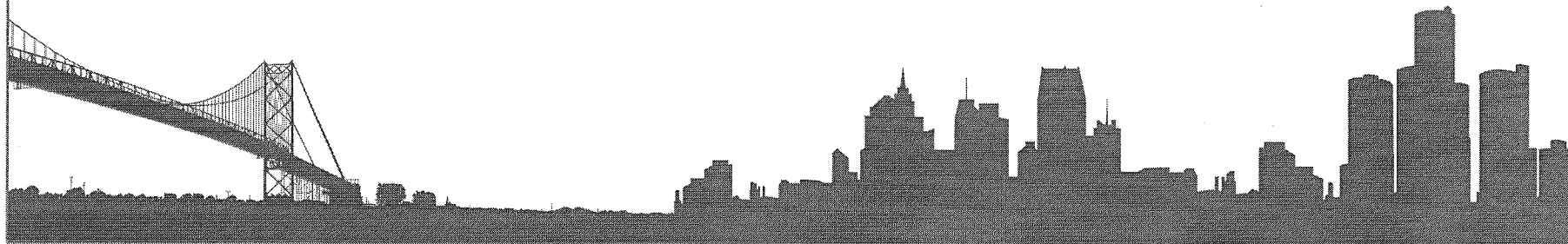


EXHIBIT A

CITY OF DETROIT
PROPOSAL FOR CREDITORS

JUNE 14, 2013



CITY OF DETROIT

PROPOSAL FOR CREDITORS

JUNE 14, 2013

This proposal is based on numerous projections and assumptions concerning future uncertain events including estimates of tax revenues and forecasts of future business and economic conditions in the city, all of which are beyond the control of the city. Actual results may differ from the assumptions and projections presented herein, and such differences could be material.

Additional data are being gathered or developed, and various critical financial and operational analyses remain in process. Thus, this proposal remains subject to material change.

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DETROIT FACES STRONG ECONOMIC HEADWINDS

DETERIORATING MACROECONOMIC CONDITIONS.

During the past several decades, the City of Detroit (the "City") has experienced changes that have adversely affected the economic circumstances of the City and its residents.

Declining Population. The City's population has declined 63% since its postwar peak, including a 26% decline since 2000:

- June 1950: 1,849,600
- June 1990: 1,028,000
- June 2000: 951,270
- June 2010: 713,777
- December 2012: 684,799

High Unemployment. Despite some recent improvement, the City's unemployment rate has nearly tripled since 2000:

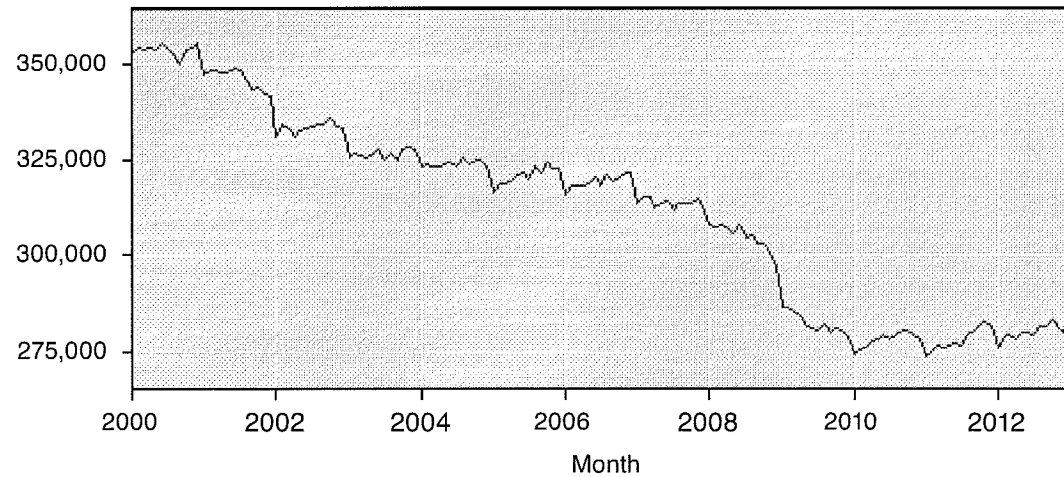
- June 2000: 6.3%
- June 2010: 23.4%
- June 2012: 18.3%

Number of Detroit Residents Employed.

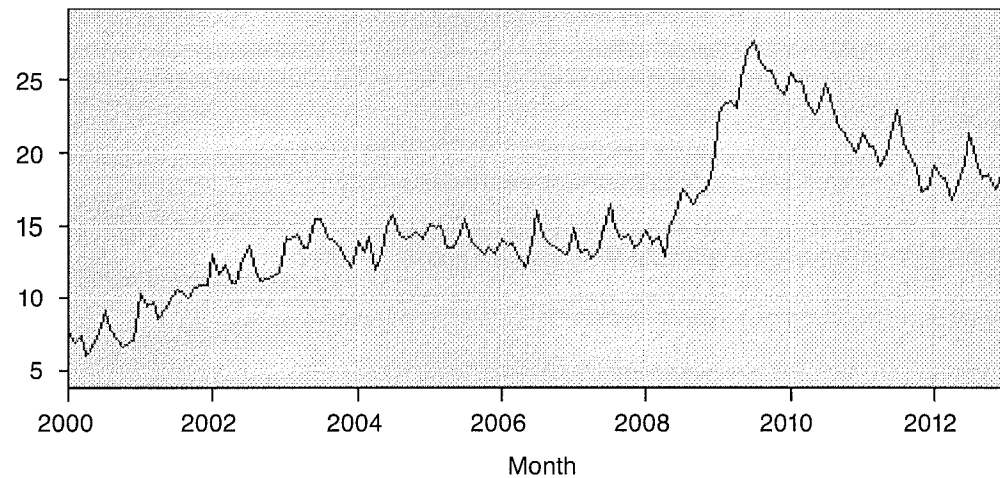
	2000	2010	2012
Labor force	381,498	361,538	343,856
Employment	353,813	278,063	279,960
Unemployment	27,685	83,475	63,896
Unemployment rate	7.3%	23.1%	18.6%

- The number of employed Detroit residents has dropped more than 53% since 1970.

EMPLOYMENT IN DETROIT



UNEMPLOYMENT RATE IN DETROIT



Eroding Tax Base and Reductions in State Revenue Sharing.

- **Property Taxes.**

- Property tax revenues have decreased by approximately 19.7% over the past five years as a result of declining assessed values (\$1.6 billion from 2008 to 2012) and lower collection rates (from 76.6% in 2008 to 68.3% in 2011).
- Projected FY 2013 property tax revenues are \$135 million, a reduction of \$13 million (or approximately 9%) from FY 2012 levels.

- **Income Taxes.**

- Income tax revenues have decreased by \$91 million since 2002 (approximately 30%) and by \$44 million (approximately 15%) since 2008. The primary cause of these decreases has been high unemployment driving lower taxable income of City residents and non-residents working in the City.
- Income tax revenues may be showing signs of stabilization. This results from a modest decrease in unemployment, the indefinite deferral of a previously planned decrease of the City's 2.4% resident income tax rate and an increase in the corporate income tax rate from 1% to 2% in January 2012.
- The income tax rate for residents and non-residents was set to decrease due to criteria set by the City Income Tax Act, but legislation has been put in place to hold the tax rates at the current level (2.4% for residents and 1.2% for non-residents) in order to avoid a loss of income tax revenues.

- **Utility Users' Excise Tax.**

- Revenues from the City's utility users' tax have declined from approximately \$55.3 million in FY 2003 to approximately \$39.8 million in FY 2012 (approximately 28%).

- **Wagering Taxes.**

- Annual receipts of wagering taxes have remained steady at about \$170–\$180 million, but gaming tax receipts are projected to decrease through FY 2015 due to expected loss of gaming revenue to casinos opening in nearby Toledo, Ohio.

- **State Revenue Sharing.**
 - State revenue sharing has decreased by \$161 million since FY 2002 (approximately 48%) and by \$76 million (approximately 30.6%) since 2008 due to the City's declining population and significant reductions in statutory revenue sharing by the State.
 - Revenue sharing is calculated based on population; revenue sharing amounts will decrease further if the City's population continues to decline.
- **The City is currently levying all taxes at or near statutory maximum rates.**

RESIDENTS AND BUSINESSES ARE LEAVING DETROIT TO ESCAPE HIGH TAXES AND INSURANCE COSTS.

Comparative Tax Burden.

- **Per Capita Tax Burden.** Per capita tax burden on City residents is the highest in Michigan. This tax burden is particularly severe because it is imposed on a population that has relatively low levels of per capita income.
- **Resident Income Tax.** Income tax burden on residents is greater than that of residents in the surrounding area. The City's income tax — 2.4% for residents, 1.2% for nonresidents and 2.0% for businesses — is the highest in Michigan.
- **Property Taxes.** Detroit residents pay the highest total property tax rates (inclusive of property taxes paid to all overlapping jurisdictions; *e.g.*, the City, the State, Wayne County) of those paid by residents of Michigan cities having a population over 50,000. The total property tax rate (including property taxes assessed by the City, the State and various special authorities) imposed on Detroit homeowners is approximately 67.07 mills; for businesses the total property tax rate is approximately 85.35 mills.
 - At more than 19.95 mills, the City's property tax rate for general operations is close to the statutory maximum of 20.00 mills.
- **Utility Users Tax.** Detroit is the only city in Michigan that levies an excise tax on utility users (at a rate of 5%).

Comparative Tax Burden.

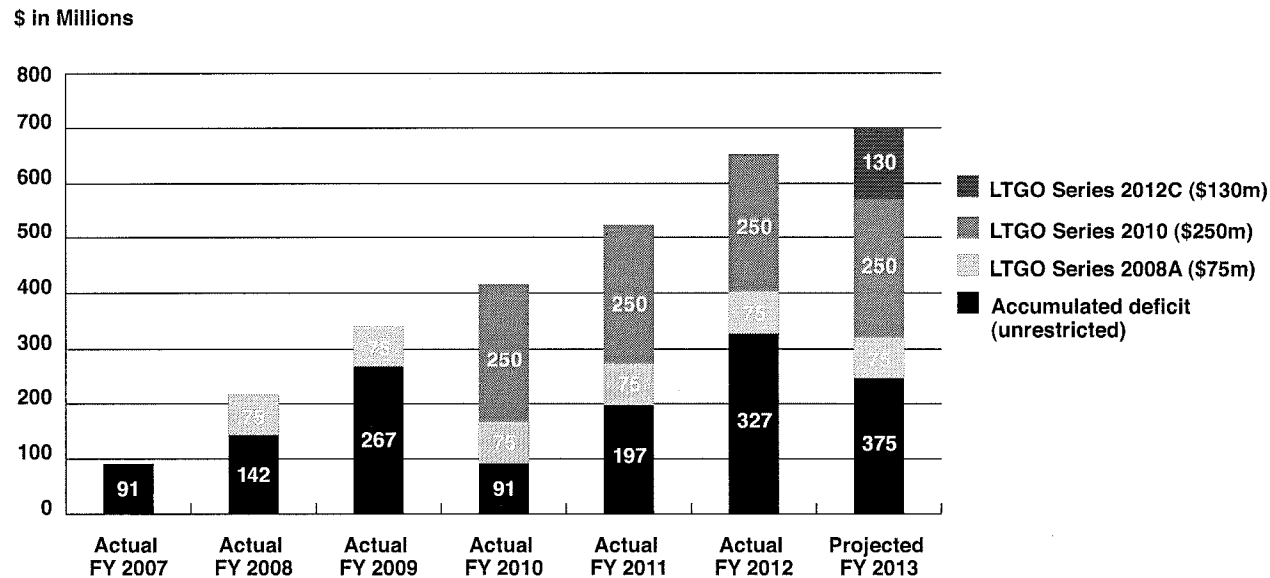
City	Population	Per Capita Income	TAX BURDEN		
			Per Capita Tax Burden	Resident Income Tax Rates	Resident Property Tax Rates
Detroit	684,799	\$15,261	\$1,207	2.4%	67.07 mills
Local Comparison					
Dearborn	98,153	\$22,816	\$668	N/A	60.23 mills
Livonia	96,942	\$31,959	\$590	N/A	36.81 mills
Southfield	71,739	\$29,228	\$930	N/A	60.70 mills

Comparative Insurance Costs.

City	Average Cost of Homeowner's Insurance	Average Cost of Automobile Insurance
Detroit	\$1,543	\$3,993
Local Comparison		
Dearborn	N/A	\$2,908
Livonia	N/A	\$2,052
Southfield	N/A	\$3,108

CONTINUING BUDGET DEFICITS.

Excluding the effect of recent debt issuances (e.g., \$75 million in FY 2008, \$250 million in FY 2010 and \$129.5 million in FY 2013) that funded the City's operating deficits, the City's accumulated general fund deficit has grown continuously over an extended period.



At the end of FY 2012, the City's accumulated general fund deficit was \$326.6 million.

The City's operating deficit for FY 2013 (which excludes the impact of the \$129.5 million debt issuance in August of 2012) is estimated to be approximately \$47 million.

If not for the City's recent debt issuances, the accumulated deficit for FY 2013 would have been approximately \$700 million.

THE CITY IS INSOLVENT.

Liquidity Crisis. Absent ongoing cash intervention (primarily in the form of payment deferrals and cost cutting), the City would have run out of cash before the end of FY 2013.

- The City had negative cash flows of \$115.5 million in FY 2012, excluding the impact of proceeds from short-term borrowings. In March 2012, to avoid running out of cash, the City borrowed \$80 million on a secured basis (of which the City spent \$50 million in FY 2012).
- The City is projecting to have positive cash flows of \$4.0 million in FY 2013 after deferring approximately \$120 million of current and prior year pension contributions and other payments.
- Absent intervention and/or restructuring, the City is projecting to have negative cash flows of \$198.5 million in FY 2014.
- As of the end of May 2013, the City had \$68 million of cash before property tax distributions, but had outstanding deferrals and amounts due to other funds and entities of approximately \$216 million. These are effectively borrowings and must be repaid.

The City is Not Paying Its Debts as They Come Due.

- The City is not making its pension contributions as they come due. The City has deferred payment of its year-end Police and Fire Retirement System contributions (and finances such deferrals at a rate of 8%). As of May 2013, the City had deferred approximately \$54 million in pension contributions related to current and prior periods and will defer approximately \$50 million on June 30, 2013 for current year PFRS pension contributions. Therefore, by fiscal year end the City will have deferred over \$100 million of pension contributions.
- The City will not make the scheduled \$39.7 million payments due on its pension-related certificates of participation on June 14, 2013.

Plummeting Credit Ratings.

The City's credit ratings have continuously declined during the past decade and are well below investment grade. No major U.S. city has lower credit ratings.

Ratings on the City's Uninsured General Obligation Bonds

	Moody's	Standard & Poor's	Fitch
June 30, 2003	Baa1	A-	A
June 30, 2004	Baa1	A-	A
June 30, 2005	Baa1	BBB+	BBB+
June 30, 2006	Baa2	BBB	BBB
June 30, 2007	Baa2	BBB	BBB
June 30, 2008	Baa2	BBB	BBB
June 30, 2009	Ba2	BB	BB
June 30, 2010	Ba3	BB	BB
June 30, 2011	Ba3	BB	BB-
June 30, 2012	B3	B	CCC

**CURRENT LEVELS OF MUNICIPAL SERVICES TO RESIDENTS
AND BUSINESSES ARE SEVERELY INADEQUATE.**

The City Must Reduce High Crime Rates.

- In 2012, the City had the highest rate of violent crime of any U.S. city having a population over 200,000 (based on the FBI's Uniform Crime Reports database). The City's violent crime rate is five times the national average.
- All crime, not just violent crime, is prevalent in the City, with more than 136,000 crimes being reported in 2011.
 - See charts on following pages.
- EMS and DFD response times are extremely slow when compared to other cities (15 minutes and 7 minutes, respectively).
- Residents and business owners have been forced to take their safety into their own hands; some relatively well-off sections of the City have created private security forces.

Comparable Data Regarding Public Safety.

Crime Data – National & Local Comparables

OFFENSES KNOWN TO LAW ENFORCEMENT

by State by City, 2011

City	Population	Violent crime	Murder and nonnegligent manslaughter	Forcible rape	Robbery	Aggravated assault	Property crime	Burglary	Larceny-theft	Motor vehicle theft	Arson
Detroit	713,239	15,245	344	427	4,962	9,512	43,818	15,994	16,456	11,368	957

Local Comparison

Dearborn	98,079	359	3	22	104	230	3,757	612	2,705	440	12
Livonia	96,869	168	1	19	40	108	2,108	308	1,589	211	11
Southfield	71,685	377	4	33	116	224	2,681	710	1,592	379	5

National Comparison

Cleveland	397,106	5,426	74	354	3,156	1,842	25,323	10,706	10,524	4,093	319
Pittsburgh	308,609	2,476	44	67	1,126	1,239	10,063	2,686	6,897	480	195
St. Louis	320,454	5,950	113	188	2,127	3,522	25,669	7,015	15,285	3,369	191
Milwaukee	597,426	5,969	85	194	2,963	2,727	30,097	6,669	18,890	4,538	262

Incidents and Case Clearance Rates – National and Local Comparables

City	Violent Crime	Murder	Force Rape	Robbery	Aggravated Assault	Simple Assault	Property Crime	Burglary	Larceny Theft	MV Theft	Arson	Total
Detroit												
Cases Assigned	15,254	344	426	4,976	9,508	17,240	43,759	16,032	16,500	11,227	958	136,224
Cleared	2,841	39	54	401	2,347	2,427	1,844	730	578	536	57	11,854
Clearance Rate	18.6%	11.3%	12.7%	8.1%	24.7%	14.1%	4.2%	4.6%	3.5%	4.8%	5.9%	8.7%
Pittsburgh												
Cases Assigned	2,476	44	67	1,126	1,239	5,619	10,063	2,686	6,897	480	195	30,892
Cleared	1,247	22	61	435	729	3,963	1,997	498	1,312	187	55	10,506
Clearance Rate	50.4%	50.0%	91.0%	38.6%	58.8%	70.5%	19.8%	18.5%	19.0%	39.0%	28.2%	34.0%
Milwaukee												
Cases Assigned	6,637	86	205	3,091	3,255	7,253	30,669	7,079	19,030	4,560	272	82,137
Cleared	2,465	58	159	764	1,484	4,701	4,718	808	3,769	141	34	19,101
Clearance Rate	37.1%	67.4%	77.6%	24.7%	45.6%	64.8%	15.4%	11.4%	19.8%	3.1%	13%	23.3%
St. Louis												
Cases Assigned	5,950	113	188	2,127	3,522	4,866	25,669	7,015	15,285	3,369	191	68,295
Cleared	2,835	75	135	619	2,006	3,745	3,296	1,109	1,987	200	19	16,026
Clearance Rate	47.6%	66.4%	71.8%	29.1%	57.0%	77.0%	12.8%	15.8%	13.0%	5.9%	9.9%	23.5%
Cleveland												
Cases Assigned	5,431	74	356	3,157	1,844	16,257	25,418	10,724	10,598	4,096	319	78,274
Cleared	1,072	26	89	447	510	3,346	1,685	793	718	174	46	8,906
Clearance Rate	19.7%	35.1%	25.0%	14.2%	27.7%	20.6%	6.6%	7.4%	6.8%	4.2%	14.4%	11.4%

City	Violent Crime	Murder	Force Rape	Robbery	Aggravated Assault	Simple Assault	Property Crime	Burglary	Larceny Theft	MV Theft	Arson	Total
Detroit												
Cases Assigned	15,254	344	426	4,976	9,508	17,240	43,759	16,032	16,500	11,227	958	136,224
Cleared	2,841	39	54	401	2,347	2,427	1,844	730	578	536	57	11,854
Clearance Rate	18.6%	11.3%	12.7%	8.1%	24.7%	14.1%	4.2%	4.6%	3.5%	4.8%	5.9%	8.7%
Southfield												
Cases Assigned	380	4	36	116	224	1178	2688	710	1602	376	5	7319
Cleared	149	3	8	27	111	276	398	58	312	28	3	1373
Clearance Rate	39.2%	75.0%	22.2%	23.3%	49.6%	23.4%	14.8%	8.2%	19.5%	7.4%	60.0%	18.8%
Livonia												
Cases Assigned	168	1	19	40	108	552	2,114	309	1,595	210	11	5,127
Cleared	69	1	1	15	52	201	563	33	505	25	0	1,465
Clearance Rate	41.1%	100.0%	5.3%	37.5%	48.1%	36.4%	26.6%	10.7%	31.7%	11.9%	0.0%	28.6%
Dearborn												
Cases Assigned	361	3	24	104	230	1,346	3,756	609	2,709	438	12	9,592
Cleared	180	3	6	37	134	419	1,229	70	1,124	35	3	3,240
Clearance Rate	49.9%	100.0%	25.0%	35.6%	58.3%	31.1%	32.7%	11.5%	41.5%	8.0%	25.0%	33.8%

THE CITY MUST PROVIDE FUNCTIONING STREET LIGHTS.

As of April 2013, approximately 40% of the City's street lights were not functioning. The lights that are functioning are scattered across the City's historical population footprint (and thus are not focused to meet the current population's actual needs).

City	Total Functioning Street Lights	Functioning Lights per square mile
Detroit	52,800	370

Local Comparison

Dearborn	6,500	265
Livonia	5,000	204
Southfield	2,356	90

National Comparison

Cleveland	67,000	812
Pittsburgh	39,779	682
St. Louis	52,000	785
Milwaukee	77,000	795

As of April 2013, the City estimated there was a backlog of approximately 3,300 complaints regarding the City's street lights.

THE CITY MUST OVERHAUL ITS OPERATIONS.

Police Department.

- Over the last five years, the DPD has had five different police chiefs, all having varying approaches to DPD's operations.
- DPD's efficiency (response times), effectiveness (case closure rate, crime reduction) and employee morale are extremely low.
- Data driven policing has not been fully adopted within DPD. Compstat (i.e., data driven policing) meetings (which would enhance accountability) are not fully implemented.
- DPD receives over 700,000 calls for service annually. DPD response times are extremely high.

Response Time Data – Detroit Police Department

CITY OF DETROIT

Priority One Response Time (In Minutes)

Precinct	2012	2013	% Change
1	23	37	60.81%
2	22	40	78.42%
4	30	42	41.03%
5	39	78	99.46%
6	32	55	75.19%
7	22	41	89.05%
8	40	115	185.31%
9	38	68	78.95%
10	24	31	31.37%
11	24	41	71.78%
12	21	34	62.58%
13	25	42	73.31%
AGENCY	2012	2013	
DPD	30	58	94.73%

Priority Other Response Time (In Minutes)

Precinct	2012	2013	% Change
1	34	38	11.57%
2	48	58	22.56%
4	42	47	12.19%
5	56	97	75.20%
6	44	50	15.36%
7	38	60	57.05%
8	56	64	15.93%
9	54	49	-8.45%
10	30	43	44.28%
11	45	70	54.82%
12	37	54	47.35%
13	35	61	74.89%
AGENCY	2012	2013	
DPD	43	56	30.59%

- The national average response time is 11 minutes. Police response times for Dearborn and Livonia are approximately nine minutes and 24 minutes, respectively.
- The DPD's extremely low 8.7% case clearance rate is driven by the DPD's lack of a case management system, lack of accountability for detectives, unfavorable work rules imposed by collective bargaining agreements and a high attrition rate in the investigative operations unit.
- The DPD's manpower has been reduced by approximately 40% over the last 10 years causing constant strain on the organization; the DPD needs to evaluate appropriate uniform staffing levels.
 - Over 450 uniformed DPD employees are eligible for retirement in 2013. An additional 150 officers are eligible for retirement in each of the following five years.
- The DPD has restructured its operations multiple times over the past ten years due to dwindling budgets, severely hampering its operations.
- Employee accountability is limited. Individual employee performance metrics do not exist for either positive or negative police activity. Morale is extremely low. Disciplinary processes are slow and cumbersome, preventing leadership from effectively managing the Department.
- Community policing efforts are underfunded, uncoordinated and have been deemphasized by the DPD. "Citizens Radio Patrol" participants have lost confidence in the DPD's commitment to this important effort.

Assessor's Office and Property Tax Division.

- The City lacks a state-required Level IV Assessor and currently has a former employee contractor in the position, whose contract expires in June 2013. Due to inadequate compensation, among other things, there are no available candidates to fill this position.
- The Assessor's Office has approximately 15,000 parcels per employee. The State recommends 4,000 parcels per employee.
- The City has not updated residential property values on a regular basis. Therefore, residential property values are likely overstated. Due to a significant number of complaints, the Michigan Tax Board is investigating Detroit's allegedly inflated property values.

Detroit Department of Transportation.

- Grant dollars are not maximized. These are typically a significant revenue source for bus transit systems.
- DDOT fares are lower than comparable bus transit systems.
- Maintenance operations are highly inefficient.
- High absenteeism among bus drivers causes inefficiencies and higher costs.

THE PHYSICAL DETERIORATION OF THE CITY MUST BE ADDRESSED.

- There are approximately (i) 78,000 abandoned and blighted structures in the City, nearly half of which are considered “dangerous” and (ii) 66,000 blighted and vacant lots within the City limits.
- The number of City parks is dwindling, and many are in poor or fair condition as a result of neglect due to lack of funding.
 - The closure of 210 parks in the 2008-09 fiscal year reduced the City's park portfolio by 66% — from 317 parks to 107 parks.
 - The City announced in February 2013 that 50 of its remaining 107 parks would be closed, another 38 parks would shift to limited maintenance, and Belle Isle (already suffering from a lack of funding) would receive decreased services.
 - Thanks to \$14 million in civic donations, the 50 parks slated to be closed will temporarily remain open through the summer of 2013.
- Approximately 70 superfund sites have been established in Detroit.
- The City's electricity grid has not been adequately maintained and is deteriorating.
- The City's fire stations are old and are not adequately maintained.
 - The average age of the City's 35 fire stations is 80 years.
 - Maintenance costs often exceed \$1 million annually. Major items requiring constant repairs: apparatus doors, plumbing, electrical, boiler and roof problems.
- The vehicles and equipment employed by the City's police, fire, EMS and transportation personnel are aging, poorly maintained and lack adequate information technology.

THE CITY HAS INCURRED AND CONTINUES TO INCUR ENORMOUS COSTS ASSOCIATED WITH UNOCCUPIED PROPERTY.

Land and Structures.

- The City's population decline and declining property values have resulted in large amounts of abandoned, forfeited or foreclosed land and structures within the City.
 - 85% of the City's land area has experienced population decline over the last decade.
- There are approximately 66,000 vacant and blighted lots within the City limits.
- There are approximately 78,000 vacant structures in the City.
 - Approximately 38,000 structures are considered dangerous buildings. The number of dangerous structures is constantly increasing due to vacancy (particularly foreclosures) and house fires.
 - 16,700 have been inspected and classified as dangerous.
 - 14,263 have open complaints of being dangerous.
 - 6,657 to go before City Council for order of demolition.
 - 1,159 are considered emergency demolitions.
- Blight contributes to fire, crime and depressed property values.
 - The City has seen between 11,000 – 12,000 fires each year for the past decade. Approximately 60% of these occur in blighted or unoccupied buildings.
 - The Fire Department spends a disproportionate (and arguably unnecessary) amount of time and money fighting fires in vacant structures. These incidents could be remedied by blight removal.

- Average cost to demolish a residential structure is approximately \$8,500, with an equalized total cost of \$5.74 per square foot.

Expense	Amount
Demolition Contract	\$5,000
Survey and Abatement	\$1,500
Gas Disconnect Fee	\$750
Administration Costs	\$720
Water Disconnect Fee	\$550
<i>Lis Pendens</i> (interest in structure)	\$15
Total Cost of Demolition	\$8,535*

* Cost will vary depending on size of unit and construction materials used.

ADDITIONAL CHALLENGES FACING BLIGHT REMOVAL EFFORTS.

Addressing blight will require the coordination of several state, county and local agencies (*e.g.*, the State Fast Track Land Bank Authority; Wayne County Treasurer and Land Bank; various City departments; the Detroit Land Bank Authority; the Detroit Housing Commission; and NGOs (*e.g.*, the Detroit Economic Growth Corporation and the Blight Authority)).

Blight removal is governed by multiple codes and regulations and a number of overlapping jurisdictions.

- **Code Enforcement and Adjudication** (*e.g.*, State of Michigan Housing Law; Zoning Ordinance, Chapter 61; Property Maintenance Ordinance, Chapter 9; Blight Violations Ordinance, Chapters 8.5 and 22; Sale of 1 and 2-family Ordinance).
- **Condemnation and Demolition** (*e.g.*, State of Michigan Housing Law; City Ordinance 290-H — wrecking structures; Industry Standard Building Officials Code Administration).
- **Foreclosure and Land Disposition** (*e.g.*, State of Michigan PA 123; various City codes addressing non-federal property).
- The current regulatory framework increases demolition costs and slows the process.

Ordinance and regulatory reform are needed to expedite demolition.

DETROIT HAS ENDURED INADEQUATE INVESTMENT IN INFRASTRUCTURE AND EQUIPMENT FOR YEARS.

Fire Department.

- **Fire Apparatus.** The Detroit Fire Department (“DFD”) fleet includes (i) 26 engines; (ii) 15 ladder trucks; (iii) six squads (specialized rescue vehicles with no watering or laddering capacity); (iv) one hazardous material apparatus; (v) one TAC unit (a mini-pumper for use in low-clearance structures such as parking garages) and (vi) 36 ambulances and other light vehicles.
- DFD’s fleet has “many mechanical issues,” contains no reserve vehicles and lacks equipment ordinarily regarded as standard.
 - The Apparatus Division’s mechanic to vehicle ratio of 1:39 (once staffed with 63 people; currently 26) results in an inability to complete preventative maintenance on schedule.
 - Detroit firefighters frequently operate shorthanded due to a lack of serviceable equipment; one DFD captain recently called his equipment “junk,” and expressed frustration at the lack of working trucks, pumps and other essential equipment across many City neighborhoods.
 - In February 2013, Detroit Fire Commissioner Donald Austin ordered firefighters not to use hydraulic ladders on DFD ladder trucks except in cases involving an “immediate threat to life” because the ladders had not received safety inspections “for years.” On May 15, 2013, AAA Michigan donated \$23,500 towards inspections of fire ladders on trucks and ground ladders because the City could not afford required inspections.
- **Fire Stations.** DFD operates 35 fire station buildings (average age = 80 years).
 - DFD has difficulty accommodating the size of modern firefighting equipment in older stations.
- **EMS Fleet.**
 - During the first quarter of 2013, frequently only 10 to 14 of the City’s 36 ambulances were in service.
 - Some of the City’s EMS vehicles have been driven 250,000 to 300,000 miles, and break down frequently.
 - In March 2013, a group of corporations pledged to donate \$8 million to the City, a portion of which will be used to upgrade the city’s fleet of EMS vehicles. The donation is expected to add 23 new leased EMS vehicles to the City’s fleet as replacements for older vehicles.

Police Department.

• Age of Police Cars.

- The DPD operates with an “extremely old fleet” of 1,291 vehicles. Most DPD police cruisers lack necessary information technology.
- A majority of vehicles in the fleet have reached replacement age (a typical replacement cycle is three years). Operating with an aged fleet drives up maintenance costs.
- The combination of an aging fleet of police cruisers and layoffs of city-employed auto mechanics has resulted in delayed maintenance and a reduction in the number of police cruisers on patrol.
- As part of the approximately \$8 million pledged by a group of corporations in March 2013, DPD expects to receive 100 new leased cruisers in 2013.

• Facilities.

- The DPD has not invested in or maintained its facility infrastructure for many years. DPD has closed or consolidated multiple precincts.
- The DPD’s facility infrastructure has reached a critical level of disrepair and no longer meets its needs, contributing to low employee and citizen morale.

Information Systems

• Challenges generally:

- Old and outdated technology assets and applications must be updated.
- Information technology infrastructure is not integrated between departments and functions (*e.g.*, there is no integration between core City finance system and Department level systems) or even within Departments (*e.g.*, police precincts and districts cannot share information across their systems).
- The City **urgently** needs to upgrade or replace the following IT systems, among others: payroll; financial; budget development; property information and assessment; income tax; and DPD operating system.
- The City lacks a formal documented IT governance structure (development of structure in process).

- **DPD, DFD and EMS**

- DPD, DFD and EMS information technology systems are obsolete; vendors do not provide full support; core functions are sporadic.
- DPD, DFD and EMS have non-integrated solutions that result in redundant data entry, no meaningful reporting and limited query capabilities.
 - DPD's IT systems, in particular, are outdated with multiple disparate systems with limited information sharing capability and requiring highly manual processes. The result is highly inefficient DPD operations.
 - DPD has no IT systems for jail management, electronic ticketing and activity logs. DPD vehicles lack necessary IT infrastructure.

- **Payroll System.**

- The City currently uses multiple, non-integrated payroll systems. A majority of employees are on an archaic payroll system that has limited reporting capability and no way to clearly track, monitor or report expenditures by category.
- The cost of payroll administration for the City is significantly higher than for comparable entities. Current cost to process payroll is \$62 per check (\$19.2 million per year), which is more than 4 times more costly than the overall average of \$15 per paycheck, and almost 3.5 times more costly than other public sector organizations, which average \$18 per paycheck.
 - The primary driver of excess cost is labor, which is more than 70% of the total cost for the City.
 - 149 full-time employees are involved in the payroll process, 51 of which are uniformed officers (*i.e.*, high-cost personnel performing clerical duties).
- Current process is highly manual (some done by hand) and prone to human error, including erroneous payments to individuals.

- **Income Tax Division**

- Income tax collection and data management are highly manual.
- The City's Income Tax System is outdated (purchased in the mid-1990s), has little to no automation capability and is "catastrophic" per an IRS audit completed in July 2012.

- Updating the current Income Tax System could (i) increase revenues for the City through improved revenue tax processing, tax compliance and collection and (ii) improve reporting, efficiency and accuracy.
 - A new tax system that allows for automated processing and e-filing capability will free up City resources to focus on compliance.

- **Property Tax Division.**

- The City's billing, processing and collection of property taxes is inefficient.
- Recommendations made by consultant in 2011 have not been followed, even though implementation promises to increase efficiency of collection process.

- **Budgeting, Accounting & Financial Reporting Systems.**

- Oracle-based Financial Reporting system (DRMS) was implemented in 1999. It is not being utilized to its full capabilities and is no longer supported by its manufacturer.
- Budget Development system (BRASS) is over ten years old and requires a manual interface with DRMS.
- Approximately 70% of journal entries are booked manually.
- The City lacks a true fail-over and backup system.
- The integration of Accounting, Budget Development and Financial Reporting systems into a single process is necessary to provide for improved reporting, efficiency, accuracy and accountability.

- **Grant Management System.**

- Grant tracking systems are fragmented. Thus, the City is unable to comprehensively track citywide grant funds and status.
- Grant reporting is not standardized, such that the City is unable to prevent disallowed costs.

- **Permitting.**

- The Buildings, Safety Engineering and Environmental Department's system for licensing and permitting is more than ten years old and needs to be upgraded.
- The Fire Marshall Division's system for inspections and permitting is more than 20 years old and needs to be replaced.
- Current information technology system deficiencies lead to bottlenecks in permit invoicing and collection of fees.

- **Department of Transportation.**

- To improve service and safety, both on buses and at DDOT facilities, DDOT requires technology updates (e.g., automatic vehicle location systems; bus cameras).

Electrical Transmission Grid and Fixtures.

- The City's Public Lighting Department ("PLD") is responsible for operating and maintaining 88,000 streetlights and owns and operates a distribution-only electricity grid providing power for lighting and serving 114 customers.
- The City-owned Mistersky power plant has been idle for 2-3 years, but has not been decommissioned. In addition, the City has 31 sub-stations that would need to be decommissioned. The City is in the process of obtaining estimates for decommissioning costs.
- Approximately 40% of Detroit's 88,000 streetlights are not functioning due, in large part, to disrepair and neglect; outages exist on both DTE Energy Company ("DTE") and PLD-powered lights.
 - Outages affecting DTE-powered lights are primarily bulb-related. Outages on PLD-powered lights are partly bulb-related. Others are caused by problems related to PLD's obsolete grid and wiring.

THE CITY'S DEBT AND LEGACY LIABILITIES HAVE GROWN CONSIDERABLY OVER TIME.

Balance Sheet Liabilities.

The City estimates that, as of the close of its 2013 fiscal year (*i.e.*, June 30, 2013), the City will have liabilities reflected on its balance sheet of approximately \$9.05 billion, including approximately:

- \$5.85 billion in special revenue obligations (*e.g.*, Enterprise Fund debt);
- \$1.43 billion in pension-related Certificate of Participation (“COPs”) liabilities;
- \$343.6 million in marked-to-market swap liabilities related to COPs (as of May 31, 2013 valuation);
- \$1.13 billion in unlimited and limited tax general obligation bond liabilities and notes and loans payable; and
- \$300 million in other liabilities.

Off-Balance Sheet Liabilities.

- **OPEB Liabilities.** Unfunded OPEB liabilities increased from \$4.8 billion to \$5.7 billion from June 30, 2007 through June 30, 2011 (the most recent actuarial data available).

- **Pension Liabilities.**

- As described in further detail below, the City’s reported pension UAAL (based on 2011 actuarial valuations) of \$643,754,109 is substantially understated.
 - Estimated UAAL for FY 2012 was \$829.8 million (for the General Retirement System (“GRS”) and \$147.2 million (for the Police and Fire Retirement System (“PFRS”)), based on 2011 actuarial assumptions.
- Further analysis by the City using more realistic assumptions (including by reducing the discount rate by one percentage point) suggests that pension UAAL will be approximately \$3.5 billion as of June 30, 2013.
- UAAL under the GRS and the PFRS increased by over \$1 billion between June 30, 2007 and June 30, 2011, even (i) using the actuarial assumptions used to calculate 2011 UAAL and (ii) after consideration of the contribution of the COPs proceeds in 2005 and 2006.

- For the five years ending with FY 2012, pension payments exceeded contributions and investment income by approximately \$1.7 billion for the GRS and \$1.6 billion for the PFRS, resulting in liquidation of pension trust principal.

System	Benefit Payments	Contribution / Investment Income	Net Trust Loss
GRS	\$1,601,193,045	(\$60,113,101)	\$1,661,306,146
PFRS	\$1,445,581,026	(\$127,803,339)	\$1,573,384,365

- **Increasing Legacy Liabilities.** During FY 2012, more than 38% of the City's actual revenue was consumed servicing legacy liabilities. Going forward, legacy liabilities are expected to consume increasing portions of City revenues.
 - Projected unfunded OPEB liabilities for FY 2013 are currently being evaluated. As of the most recent valuation (June 30, 2011), OPEB unfunded liabilities totaled \$5.7 billion and are expected to grow absent restructuring.
 - Required pension contributions are projected to increase in light of (i) an increasingly mature population already in pension pay status, (ii) deferral of recognition of prior losses, (iii) the anticipated revision of actuarial assumptions used in the past and (iv) past deferrals of contributions.
 - In addition, the Governmental Accounting Standards Board has issued a statement (No. 67), effective during the City's 2014 fiscal year, requiring municipalities to recognize their unfunded pension benefit obligation as a liability and to more comprehensively measure the annual costs of pension benefits.
 - Even if the City were not to change prior actuarial assumptions, pension UAAL is projected to grow to nearly \$2 billion by 2017. The adoption of realistic actuarial assumptions would result in a significantly higher number for UAAL.
- Debt service for the City's general fund, including payments related to unlimited tax general obligations and COPs, is projected to exceed \$240 million in FY 2013.

Obligations Secured by Special Revenues

- The City estimates that, as of the end of FY 2013 (*i.e.*, June 30, 2013), it will have:
 - \$5.34 billion in outstanding principal amount of revenue bonds; and
 - \$494 million in related state revolving loans.
- The revenue bonds and the revolving loans are related to the following funds:
 - Sewage Disposal Fund
 - \$2.82 billion in outstanding principal amount of notes maturing July 1, 2013 through July 1, 2039, as of June 30, 2013.
 - \$472.8 million in outstanding principal amount of state revolving loans, as of June 30, 2013.
 - Substantially all revenues of the sewage disposal system, net of operating expenses, pledged to secure payment of principal and interest. Net system revenues of \$227,447,337 versus debt service requirements of \$199,990,125 in FY 2012.
 - A schedule of the sewage disposal system bonds and related state revolving loans as of June 30, 2012 is attached hereto as Appendix A.
 - Water Fund
 - \$2.52 billion in outstanding principal amount of various series of notes maturing July 1, 2013 through July 1, 2041, as of June 30, 2013.
 - \$21.4 million in outstanding principal amount of state revolving loans, as of June 30, 2013.
 - Substantially all of the revenues of the City's water system, net of operating expenses, pledged to secure payment of principal and interest. Net system revenues of \$178,842,057 versus debt service requirements of \$153,441,666 in FY 2012.
 - A schedule of the water system bonds and related state revolving loans as of June 30, 2012 is attached hereto as Appendix B.

- Automobile Parking Fund
 - \$9.3 million in outstanding principal amount of Detroit Building Authority Revenue Refunding Bonds: Parking System, Series 1998-A maturing July 1, 2013 through July 1, 2019, as of June 30, 2013.
 - Substantially all revenues of the parking system, net of operating expenses, pledged to secure payments of principal and interest.
 - Net system revenues of \$2,708,223 versus debt service requirements of \$2,923,454 in FY 2012.
- A chart setting forth the annual debt service on the foregoing special revenue obligations is attached hereto as Appendix F.

General Fund Obligations

- The City estimates that, as of the close of FY 2013 (*i.e.*, June 30, 2013), it will have \$1.01 billion in outstanding principal amount of limited and unlimited tax general obligation bonds, consisting of:
 - \$469.1 million in outstanding principal amount of unlimited tax general obligation (“*UTGO*”) bonds maturing from April 1, 2013 through November 1, 2035.
 - \$100 million of the foregoing bonds are secured by a second lien on distributable state aid.
 - \$540.3 million in outstanding principal amount of limited tax general obligation (“*LTGO*”) bonds maturing April 1, 2013 through November 1, 2035.
 - Issuance of LTGO bonds do not require voter approval. They are payable from general non-restricted funds.
 - \$249.8 million of the LTGO bonds are secured by a first lien on distributable state aid. \$129.5 million of the LTGO bonds are secured by a third lien on distributable state aid.

- The City estimates that, as of June 30, 2013, the City will have \$121.5 million in other outstanding installment notes and loans payable related to various public improvement projects.
 - \$87.8 million in notes payable, which notes were issued in connection with the “Section 108” HUD Loan Guarantee Program and are secured by future “Block Grant” revenues.
 - \$33.7 million in loans payable (\$33.6 million of which is a non-interest bearing unsecured loan payable to the Downtown Development Authority as general operating funds become available).
- On August 23, 2012, the City issued \$129.5 million of LTGO bonds at a \$9.1 million premium (generating \$137 million in proceeds after issuance costs) in part to defease short term bonds issued March 2012. The remaining proceeds of this issuance were set aside with a trustee bank in an escrow account to provide funds for reforms and liquidity in FY 2013. The current amount of the escrow is approximately \$80 million.
- A schedule of the secured general obligation bonds and secured notes and loans payable as of June 30, 2012 is attached hereto as Appendix D. A schedule of the unsecured general obligation bonds and unsecured loans payable as of June 30, 2012 is attached hereto as Appendix E. A chart setting forth the annual debt service on the foregoing general fund obligations (and other liabilities) is attached hereto as Appendix G.

Certificates of Participation (Pension).

- In 2005, service corporations established by the GRS and PFRS created a trust that issued the COPs. The proceeds of the COPs were contributed to the City’s pension trusts.
- Principal and interest on the COPs is payable solely from payments made by the City to the service corporations pursuant to service contracts.
- The City estimates that, as of the close of FY 2013 (*i.e.*, June 30, 2013), the following amounts were outstanding under the COPs:
 - \$480.3 million in outstanding principal amount of \$640,000,000 Certificates of Participation Series 2005 A maturing June 15, 2013 through 2025; and
 - \$948.54 million in outstanding principal amount of \$948,540,000 Certificates of Participation Series 2006 A and B maturing June 15, 2019 through 2035.

- The City has allocated portions of the COP liabilities among the transportation, sewage disposal, water and library funds based on each fund's share of the aggregate UAAL determined at the time of issuance of the COPs.
- The City has identified certain issues related to the validity and/or enforceability of the COPs that may warrant further investigation.
- A schedule of the COPs and related swap liabilities as of June 30, 2012 is attached hereto as Appendix C.

Swap Liabilities Related to Certificates of Participation.

- In connection with the COPs, the City entered into eight pay-fixed, receive-variable interest rate swap contracts, effective as of June 12, 2006, with a total notional amount of \$800 million.
 - Recent valuations establish the negative fair value of the swaps at approximately \$343.6 million (as of May 31, 2013).
 - January 2009 — The City received notice from the swap contract counterparties that downgrading of the COPs and certain swap insurers would constitute an "Additional Termination Event" under the swap contracts if not cured.
 - June 2009 — The City and the swap contract counterparties agreed on an amendment to the swap agreements, eliminating the Additional Termination Event and the potential for an immediate demand for a termination payment. Pursuant to the amendment:
 - The swap counterparties waived their right to termination payments; and
 - The City agreed to:
 - direct certain wagering tax revenues to a trust as collateral for the quarterly payments owing to the swap counterparties;
 - increase the interest rate of the swap agreements by 10 basis points effective July 1, 2010; and
 - include new termination events, including if COP ratings were withdrawn, suspended or downgraded.
 - March 2012 — COPs were further downgraded which triggered another Termination Event; City and the swap counterparties are in negotiations regarding the Termination Event.
 - March 2013 — Appointment of Emergency Manager constitutes an event of default triggering another Termination Event.

- Although this proposal reflects treating the swap obligations as special revenue debt secured by the wagering tax revenues, that treatment is still being reviewed by the Emergency Manager.
- A chart setting forth the annual debt service on the COPs and related swap liabilities is attached hereto as Appendix H.

UNSUSTAINABLE RETIREE BENEFITS.

OPEB Liabilities Are Large and Unfunded.

- The OPEB plans consist of the Health and Life Insurance Benefit Plan and the Supplemental Death Benefit Plan.
- As of June 30, 2011 (the most recently published actuarial valuation), there were 19,389 retirees eligible to receive benefits under the City's OPEB plans. The number of retirees receiving benefits from the City is expected to increase over time.
- 99.6% of the City's OPEB liabilities are unfunded.
- **Health and Life Insurance Plan**
 - Defined benefit plan providing hospitalization, dental care, vision care and life insurance to current employees and substantially all retirees.
 - City generally pays for 80% to 100% of health care coverage for eligible retirees.
 - \$5,718,286,228 in actuarial liabilities as of June 30, 2011. An updated actuarial valuation based on more recent census data is currently being developed by third party professionals.
 - The Health and Life Insurance Plan is 0% funded; financed entirely on a "pay-as-you-go" basis.
 - \$177,460,627 cost to the City on account of retiree benefits during FY 2012 provided under the Health and Life Insurance Plan.
 - City's contribution is in addition to \$23,516,879 in FY 2012 contributions by retirees.

- The City's OPEB costs are expected to increase as a result of the City's growing number, and young age, of retirees (pension and health care plans have no age restrictions and early vesting ages) as well as increases in health care costs, particularly hospitalization costs.
- Health and Life Insurance Plan is secondary to Medicare for eligible employees over the age of 65; however, many retired police/fire employees are *not* eligible to receive free Medicare Part A benefits due to State-regulated social security "opt-out" provisions.
- **Supplemental Death Benefit Plan**
 - Pre-funded single-employer defined benefit plan providing death benefits based upon years of creditable service.
 - \$34,564,960 in actuarially accrued liabilities as of June 30, 2011.
 - 74.3% funded; UAAL of \$8.9 million.

OPEB Obligations Arise Under a Multiplicity of Plans

- The City's OPEB obligations arise under 22 different plans (15 different plans alone for medical/Rx) having varying structures and terms. This creates a high level of complexity and cost in benefit administration.

Weiler Class OPEB Benefits.

- In July 2006, the City made a number of unilateral changes to the healthcare benefits for unionized police and firefighter retirees. Retiree Alan Weiler filed a class action lawsuit on behalf of approximately 7,000 retirees alleging violations of collective bargaining agreements.
- The City and the *Weiler* class settled before trial, and the court entered a Consent Judgment approving the parties' settlement agreement. The settlement agreement requires the City to provide *Weiler* class members with generous health benefits for as long as class members receive a City pension.
- The *Weiler* plaintiffs are expected to assert that the settlement restricts the ability of the City to alter the benefit provisions included in the settlement.

- The *Weiler* class retirees/beneficiaries currently cost the City approximately \$75 million per year, representing over 40% of retiree benefits costs under the Health and Life Insurance Plan.

Pension Liabilities Are Not Fully Funded — Shortfall Has Been Understated.

Aggressive Actuarial Assumptions Generate a Perception that Pensions are Modestly Underfunded.

- GRS: Reported UAAL of \$639,871,444 out of \$3,720,167,178 in accrued liabilities as of June 30, 2011 (82.8% funded).
- PFRS: Reported UAAL of \$3,882,665 out of \$3,808,642,553 in accrued liabilities as of June 30, 2011, as a result of awards received under Public Act 312 of 1969 (99.9% funded).
- These funding levels were based on the following assumptions:

	GRS	PFRS
Amortization Period	30 years (refinanced anew each year)	30 years
Asset valuation method	7-year smoothed market	7-year smoothed market
Investment rate of return (net of expenses)	7.9%	8.0%
Projected salary increases	4.0%-8.9%	5.0%-9.2%
Inflation rate	4.0%	0% for four years; 4.0% thereafter
Cost-of-living pension adjustments	2.25%	2.25%

More Realistic Assumptions Reveal That Funding Levels Have Been Overstated.

- The combined reported UAAL of approximately \$644 million for the GRS/PFRS (estimated at \$977 million as of June 30, 2012) is **substantially** understated.
- Current actuarial valuations project aggressive and unrealistic annual rates of return on investments net of expenses (GRS — 7.9%; PFRS — 8.0%).

- * Pension plan funding levels calculated based upon assumed annual rates of return of 7%, or even 7.5%, would further reduce funding levels.
- * Smoothing of funding levels over seven years masks funding shortfall — pension plan funding levels calculated based on the current market value of the plans' assets show substantially reduced funding levels (GRS – 65% funded; PFRS – 78% funded).
- * A 30-year amortization period for unfunded liabilities — which in GRS is applied anew each year to the full amount of unfunded liability, akin to annually refinancing a 30-year mortgage — allows unfunded liabilities to continue to grow rapidly (due to compounding).
- * Although many governmental plans have significant amortization periods for unfunded benefits (*e.g.*, MERS applies a 27-year amortization period with a goal of moving down to 20 years by the December 31, 2017 valuation), 30 years is longer than most and is far too long for these mature plans. Especially in the case of GRS, such a long period has the effect of deferring efforts to meaningfully reduce underfunding into the future.
- * The City has consistently deferred payment of its year-end PFRS contributions (and finances such deferrals at a rate of 8%). As of June 30, 2012, the City owed the PFRS its full contribution for FY 2012 in the amount of approximately \$50 million. As of May 2013, the City had deferred approximately \$58 million in pension contributions owing for FY 2013. Contributions made in the form of notes have been treated as timely funding contributions made to the pension trust during the applicable financial year.
- * The City was granted a funding credit by PFRS in the amount of \$25 million for each of the fiscal years 2008 through 2010 resulting in under-contributions by the City toward its pension liabilities for each of those years.

Past Pension Practices. Certain past trustee practices contributed to the pension plans' significant underfunding (*e.g.*, annuity savings accounts; “13th checks”; ad hoc “sweeteners”; and various changes to eligibility (*e.g.*, lowered years of service, combined years of employment)).

- * For example, in both pension plans (and especially GRS), hundreds of millions of dollars contributed by the City and invested to support the defined benefit arrangement have instead been used to fund investment returns selected (but not actually earned) on employee contributions made under a separate defined contribution arrangement known as the Annuity Savings Accounts.

Anticipated Increase in Pension Contributions. Using current actuarial assumptions, the City's required pension contributions are projected to grow from 25% (for GRS) and 30% (for PFRS) of eligible payroll expenses in FY 2012 to 30% (for GRS) and 60% (for PFRS) of such expenses by FY 2017. Changes in actuarial assumptions would result in further increases to the City's required pension contributions.

OTHER LIABILITIES

The City estimates that, as of the end of FY 2013, the City will have \$300 million in other liabilities outstanding.

As of June 30, 2012, the City owed at least \$264.6 million in other liabilities, consisting primarily of:

- \$101.2 million in accrued compensated absences, including unpaid, accumulated vacation and sick leave balances;
- \$86.5 million in accrued workers' compensation for which the City is self-insured;
- \$63.9 million in claims and judgments, including lawsuits and claims other than workers' compensation claims; and
- \$13.0 million in capital leases and accrued pollution remedies.

	FUND						
	General Governmental	Sewage Disposal	Transportation	Water	Parking	Other Proprietary	Total
Accrued compensated absences	82,099,713	5,502,481	3,895,416	9,421,311	276,814	53,442	\$101,249,177
Accrued workers' compensation	66,231,000	3,554,000	5,569,812	10,339,000	667,000	92,000	\$86,452,812
Capital leases payable			12,678,358				\$12,678,358
Claims and judgments	62,003,257	1,519,500		286,500	110,497	2,000	\$63,921,754
Accrued pollution remediation		340,613					\$340,613
Total	\$210,333,970	\$10,916,594	\$22,143,586	\$20,046,811	\$1,054,311	\$147,442	\$264,642,714

Steady State Projection of Legacy Expenditures (assuming no restructuring)

(\$ in millions)

	FISCAL YEAR ENDED ACTUAL					PRELIMINARY FORECAST				
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Legacy expenditures										
Debt service (LTGO)	\$(66.6)	\$(106.2)	\$(63.5)	\$(64.5)	\$(62.6)	\$(70.8)	\$(70.9)	\$(61.8)	\$(61.8)	\$(38.5)
Debt service (UTGO)	(67.2)	(71.5)	(72.4)	(72.8)	(73.0)	(70.6)	(64.9)	(62.5)	(57.6)	(57.6)
POC - principal and interest (GF)	(24.6)	(20.9)	(23.6)	(33.5)	(33.0)	(46.8)	(51.4)	(53.3)	(55.0)	(56.9)
POC - principal and interest (EF, excl. DDOT)	(1.8)	(1.4)	(1.5)	(1.8)	(2.0)	(5.3)	(5.9)	(6.1)	(6.4)	(6.6)
POC - principal and interest (DDOT)	(3.5)	(2.8)	(3.0)	(3.6)	(4.0)	(3.3)	(3.7)	(3.8)	(3.9)	(4.1)
POC - swaps (GF)	(38.6)	(43.9)	(44.7)	(44.7)	(44.8)	(42.9)	(42.8)	(42.8)	(42.7)	(42.7)
POC - swaps (EF, excl. DDOT)	(2.3)	(2.0)	(2.0)	(2.0)	(2.0)	(4.8)	(4.8)	(4.8)	(4.9)	(4.9)
POC - swaps (DDOT)	(4.5)	(4.0)	(4.0)	(4.0)	(4.0)	(3.0)	(3.0)	(3.0)	(3.0)	(3.0)
Pension contributions - Public Safety	(58.9)	(31.4)	(32.8)	(81.6)	(49.8)	(46.1)	(139.0)	(163.0)	(180.0)	(198.0)
Pension contributions - Non-Public Safety	(10.6)	(27.0)	(11.1)	(28.3)	(25.4)	(19.9)	(36.9)	(42.5)	(47.7)	(53.1)
Pension contributions - DDOT	(6.8)	(7.3)	(6.9)	(9.5)	(10.9)	(12.3)	(23.6)	(27.7)	(31.2)	(34.8)
Health benefits - retiree - Public Safety	(73.7)	(80.2)	(70.4)	(79.6)	(90.6)	(91.5)	(88.6)	(95.2)	(101.7)	(108.0)
Health benefits - retiree - Non-Public Safety	(47.4)	(51.6)	(50.6)	(49.0)	(49.2)	(49.7)	(38.8)	(41.5)	(44.6)	(47.7)
Health benefits - retiree - DDOT	(8.2)	(11.8)	(11.2)	(11.1)	(10.3)	(10.4)	(13.3)	(14.3)	(15.3)	(16.3)
Total legacy expenditures	\$(414.6)	\$(462.0)	\$(397.9)	\$(486.1)	\$(461.6)	\$(477.3)	\$(587.6)	\$(622.4)	\$(655.9)	\$(672.3)
Total revenues (excl. financing proceeds)	\$1,397.7	\$1,363.3	\$1,291.0	\$1,316.8	\$1,196.9	\$1,121.9	\$1,082.8	\$1,046.2	\$1,041.5	\$1,041.4
Total legacy expenditures as a % of total revenues	29.7%	33.9%	30.8%	36.9%	38.6%	42.5%	54.3%	59.5%	63.0%	64.6%

HIGH LABOR COSTS AND RESTRICTIVE EMPLOYMENT TERMS

High Labor Costs.

Despite recent headcount reductions, labor costs related to General Fund active employees (*i.e.*, wages, pension and benefits) represent more than 41% of the City's estimated FY 2013 gross revenues. Accordingly, savings related to such costs are a critical component of any restructuring.

- Estimated General Fund FY 2013 Wages: \$333.8 million (29.8% of estimated FY 2013 revenues).
- Estimated General Fund FY 2013 Benefit Costs (fringes including health for *active* employees): Approx. \$66.5 million (5.9% of estimated FY 2013 revenues).
- Estimated General Fund FY 2013 pension contributions (including normal and UAAL portion): \$66.0 million (5.9% of estimated FY 2013 revenues).
 - While pension contributions are based on active payroll, some portion of the contribution is intended to cover the unfunded actuarial accrued liability which technically benefits all participants in the plan, including retirees.
 - Benefit and pension costs per *active* employee have increased from ~\$18,000 in FY 2000 to ~\$24,000 in FY 2013.
- **Increasing Benefit Costs.** Some of the savings related to medical benefits achieved through the City Employment Terms (the "CETs") will be offset by anticipated medical cost inflation.

Collective Bargaining Landscape.

The City's unionized employees are represented by 47 discrete bargaining units. The CBAs covering 44 of those bargaining units were expired as of September 30, 2012, and the majority of the employees represented thereby are subject to the CETs. The CBAs with the three remaining bargaining units expire as of June 30, 2013, at which point the employees represented thereby will become subject to the CETs as well. *See* Appendix I (identifying all City employee bargaining units).

Restrictive Employment Terms.

The City's CBAs impose work rules and other restrictions that have impaired the efficient functioning of City government. The CETs provide some relief from work rules and other restrictions (in part through incorporation of a broad management rights clause).

- **“Bumping” Rights.** Employees have been permitted to transfer across departments based solely on seniority (without regard to merit, relevant qualifications or experience for the new position). The City has amended the criteria for transfers and assignments and based them upon experience, attendance, work performance, sick time use and demonstrated ability rather than seniority.
 - The CETs also negated seniority protections in various CBAs by changing shifts, hours of operation and overtime procedures; and revising or eliminating job classifications.
- **Limitations on Management Rights.** The City's ability to manage policies, goals and the scope of operations for many City departments (most notably with respect to the right to implement and modify disciplinary policies) have been impaired by limitations on management rights and responsibilities. The CETs have replaced these limitations with a broad management rights clause, granting the City broad discretion with respect to the design and implementation of work rules.
- **Arbitration Rights.** The CETs curtail the ability of arbitrators to uphold future grievances based on expired bargaining agreement provisions or past practice.
- **Lack of Reimbursement Rights.** The unions historically did not (i) reimburse the City for full-time and part-time paid union officials or (ii) pay any fees for the City's collection and remittance of union dues and service fees. Under the CETs, the City is reimbursed for paid officials and collects a 2% administrative fee in connection with efforts related to union dues/service fees.
- In addition to concessions imposed by the CETs, additional concessions have been granted through statutory interest arbitration. These concessions have not been uniformly applied to all bargaining units, and some City employees have not been affected by these measures.
- In some cases, changes to the City Charter and the City Code, or other legislative initiatives, may be necessary to support needed operational enhancements and reduce unnecessary bureaucracy.

DETROIT WATER AND SEWERAGE DEPARTMENT MUST BE RESTRUCTURED.

The Detroit Water and Sewerage Department (“DWSD”) is one of the largest municipal water and sewerage departments in the nation, providing water and wastewater services to the City and many suburban communities in an eight-county area, covering 1,079 square miles.

DWSD Capital Expenditures.

- Municipal securities broker/dealers and the City’s advisors’ analyses suggest that DWSD’s cost of capital is inflated due to the DWSD’s association with the City (and its financial circumstances). This increased cost of capital, coupled with the inability to raise rates and other factors, has resulted in significant under-spending on capital expenditures.
- DWSD’s January 2013 Capital Improvement Program totals approximately \$1.2 billion over the next four years with approximately \$322.4 million budgeted for water and sewer projects for FY 2013-14 and \$361.8 million budgeted for FY 2014-15.

The EPA Litigation (E.D. Mich., Judge Cox).

- In 1977, the United States Environmental Protection Agency sued the City and the DWSD, alleging violations of the Clean Water Act (“CWA”). The case remained pending in the United States District Court for the Eastern District of Michigan — and the DWSD operated under federal oversight — for more than 35 years owing to “a recurring cycle” of compliance failures with regard to the CWA and National Pollutant Discharge Elimination System (“NPDES”) permits required by the Michigan Department of Environmental Quality (“MDEQ”).

Administrative Consent Order.

- In July 2011, the DWSD agreed to undertake remedial measures pursuant to an Administrative Consent Order (“ACO”) with the MDEQ. The ACO instituted a compliance program with regard to areas of persistent dysfunction (e.g., maintenance; inadequate capital expenditures and related planning; inadequate staffing; restrictive procurement policies).
- Following the dismissal of the EPA Litigation, the ACO is the only order through which the MDEQ maintains oversight of the DWSD.

Root Cause Committee Plan of Action.

- Determining that the ACO, by itself, could not guarantee the DWSD's long-term compliance with CWA and NPDES standards, the district court ordered a "Root Cause Committee" comprised of City/DWSD officials to submit a plan addressing the "root causes" of the DWSD's noncompliance.
- The Root Cause Committee drafted – and the district court adopted – a "Plan of Action," which proposed to restructure the DWSD in order to address systemic dysfunction and achieve long-term compliance with federal and state standards (including, but not limited to, the imposition of changes on DWSD employees otherwise forbidden by applicable CBAs).
- A report submitted by the Root Cause Committee in March 2013 recommended an autonomous DWSD. Implementation of the Root Cause Committee's recommendation would require creation of two unique authorities (with one authority owning the assets and the other authority leasing the assets and making recurring payments to the City in lieu of taxes in the estimated annual amount of \$50,000,000 in consideration for the transfer of DWSD assets).

Order Dismissing Case.

- By an order dated March 27, 2013, the district court closed the case, stating that it was satisfied that the court's orders and the ACO "have been substantially implemented." Closing the case was appropriate, the court said, "because the existing [ACO] is a sufficient mechanism to address any future issues regarding compliance with the DWSD's NPDES permit and the [CWA]."
- The district court did not order the implementation of the DWSD transaction proposed by the Root Cause Committee, citing its lack of authority to do so.
- The City appealed the district court's order dismissing the EPA Litigation on May 22, 2013.

OTHER LITIGATION AFFECTING THE CITY'S FINANCIAL CONDITION

The City generally has been successful in defending against legal challenges to its attempts to restructure its financial affairs, but numerous cases have been filed and remain pending and additional cases may well be filed. Some of these cases could affect the ability of the City to successfully restructure its affairs.

Litigation Challenging Consent Agreement.

Decision Voiding CBA-Related Sections of Consent Agreement Reversed on Procedural Grounds.

- In September 2012, the Ingham County Circuit Court struck down Sections 4.1 and 4.3 of the Consent Agreement, which provisions (i) granted the Mayor "authority to negotiate, renegotiate, execute, amend, modify, reject or terminate collective bargaining agreements" (§ 4.1) and (ii) gave the Financial Advisory Board approval rights over CBAs and allowed the Program Management Director to impose CBAs not approved by the City Council (§ 4.3). The Court overturned these provisions on the grounds that they improperly granted powers to Mayor Bing and other officials that are reserved exclusively to emergency managers.
- In October 2012, the Court of Appeals for the State of Michigan reversed the Ingham County court. The Court of Appeals' ruling was based on procedural grounds (*i.e.*, that the Circuit Court had lacked jurisdiction where the plaintiff had failed to establish standing).

Litigation Regarding Imposition of CETs.

Over 15 legal challenges and grievances related to the imposition of the CETs have been filed in several state courts and before the Michigan Employment Relations Commission (“MERC”). These cases challenge the enforceability of the Financial Stability Agreement and, thus, the legality of the CETs. These challenges generally have not prevented the City’s imposition of the CETs.

- **Imposition of CETs on Police Department.** In August of 2012, the Wayne County Circuit Court denied the Detroit Police Officers Association’s request for a permanent injunction against imposition of the CETs.
- **Imposition of CETs on DWSD Employees.** In the long-standing EPA Litigation, the United States District Court for the Eastern District of Michigan (i) required that DWSD employees enter into new CBAs with the DWSD (as opposed to with the City) and (ii) clarified that, although its orders did not restrict the DWSD from implementing CETs with respect to DWSD employees prior to negotiation of new CBAs, neither did such orders enjoin employees from challenging the CETs to the extent imposition thereof was inconsistent with applicable law. AFSCME Local 207 – the largest union in the DWSD – has challenged the imposition of the CETs upon DWSD employees before the MERC.
- **Restoration of Certain Pay Cuts.** In *In re City of Detroit and Detroit Police Officers Association*, Case No. D12 D-0354, the Detroit Police Officers Association, among other things, sought the restoration of a 10% across-the-board pay cut imposed upon all City police officers pursuant to the CETs. The City argued that such wage cuts were needed in light of the City’s ongoing financial emergency. The MERC panel ordered a 5% restoration of the officers’ wages, effective January 1, 2014 (and encouraged the emergency manager, the Mayor and the State Treasurer to consider instituting the 5% salary restoration effective July 1, 2013).

KEY OBJECTIVES FOR A FINANCIAL RESTRUCTURING AND REHABILITATION OF DETROIT

To the fullest extent possible under all of the circumstances:

- Provide incentives (and eliminate disincentives) for businesses and residents to locate and/or remain in the City.
 - The City cannot stabilize or pay creditors meaningful recoveries if it continues to shrink.
 - Achieving this goal requires improvements in City services, particularly in the area of public safety and tax reform to reduce the cost of living in the City to more closely approximate costs of living in nearby areas.
- Maximize recoveries for creditors.
 - Since the City will not generate sufficient cash to pay all liabilities, alternatives have to be considered.
- Provide affordable pension and health insurance benefits, and restructure governance of pension arrangements.
- Eliminate blight to assist in stabilizing and revitalizing neighborhoods and communities within the City.
- Reform the City government operations to improve efficiency and reduce costs.
 - In many areas, longer term benefits will require immediate increases in capital investment.
- Maximize collection of taxes and fees that are levied or imposed.
- Generate value from City assets where it is appropriate to do so.

CURRENT FINANCIAL STATUS

HISTORICAL REVENUE AND EXPENDITURE TRENDS, INCLUDING PRELIMINARY FY 2013.

General Fund summary

(\$ in millions)	FISCAL YEAR ENDED ACTUAL					PRELIM.
	2008	2009	2010	2011	2012	2013
Total revenues	\$1,397.7	\$1,363.3	\$1,291.0	\$1,316.8	\$1,196.9	\$1,121.9
Operating expenditures	(1,111.1)	(1,025.3)	(964.7)	(887.5)	(857.1)	(692.0)
Legacy expenditures	(414.6)	(462.0)	(397.9)	(486.1)	(461.6)	(477.3)
Deficit (excl. financing proceeds)	(127.9)	(124.1)	(71.7)	(56.9)	(121.8)	(47.4)
Financing proceeds	75.0	-	250.0	-	-	137.0
Total surplus (deficit)	\$(52.9)	\$(124.1)	\$178.3	\$(56.9)	\$(121.8)	\$89.6
Accumulated unrestricted General Fund deficit	\$(219.2)	\$(331.9)	\$(155.7)	\$(196.6)	\$(326.6)	\$(237.0)

The City has made significant progress decreasing operating costs; however, revenues have declined more quickly and legacy costs have increased.

Excluding proceeds from debt issuances, the City's expenditures have exceeded revenues from FY 2008 to FY 2012 by an average of \$100 million annually.